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ORIGIN TRSE-00

INFO OCT-01 EUR-12 EA-10 ISO-00 EB-08 XMB-02 SSO-00
INRE-00 USIE-00 AID-05 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
NSCE-00 SOE-02 CEA-01 DODE-00 DOE-11 H-01 INT-05
L-03 PM-05 OES-07 SS-15 STR-07 ACDA-12 /128 R

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FM SECSTATE WASHDC
TO AMEMBASSY LONDON IMMEDIATE
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E.O. 11652: N/A

TAGS:ENRG

SUBJECT:EXIMBANK OFFER TO FINANCE KOREAN NUCLEAR POWER
STATIONS

REF: LONDON 01864

SUMMARY: WASHINGTON OFFICIALS REGRET BRITISH FEEL EXIMBANK
OFFER VIOLATES SPIRIT OF CONSENSUS. WE BELIEVE IT APPRO-
PRIATE FOR EXIMBANK TO CONTINUE TO MEET TERMS OF COMPETI-
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TION. CASE DEMONSTRATES NEED TO ACHIEVE CONSENSUS AS SOON
AS POSSIBLE WITH POWER SECTOR INCLUDED. FACTORS INFLUENC-
ING DECISIONS HERE AND POSSIBLE TALKING POINTS FOLLOW.
END SUMMARY.

1. FOLLOWING IS BRIEF HISTORY OF EXIMBANK'S OFFERS OF

FINANCING FOR KOREAN NUCLEAR POWER PROJECT (KORI 3 AND KORI 4) WITH TOTAL EXPORT VALUE OF APPROXIMATELY ONE BILLION DOLLARS.

2. WHEN BIDDING STARTED LAST SUMMER, FRENCH OFFERED FINANCING ON TURNKEY BASIS AND APPEARED TO HAVE INSIDE TRACK. KOREANS INSISTED, HOWEVER, ON COMPONENT APPROACH, WITH THREE MAJOR COMPONENTS OF PROJECT: (1) NUCLEAR FACILITIES (APPROXIMATE EXCHANGE COST DOLS. 600 MILLION); (2) TURBINE GENERATOR ISLAND (DOLS. 100 MILLION); AND (3) BALANCE OF

PLANT (DOLS. 300 MILLION). CURRENT SKIRMISH CENTERS MAINLY ON ITEM (2) ABOVE.

3. FIRST EXIMBANK PRELIMINARY COMMITMENT SEPTEMBER 1977 FOR WHOLE PROJECT OFFERED FOLLOWING TERMS: 15 PERCENT CASH 60 PERCENT EXIMBANK LOAN AT 8 1/2 PERCENT, 25 PERCENT PEFOD, WITH REPAYMENT OVER 12 YEARS. HOWEVER, OFFER NOT RPT NOT CONDITIONAL ON ACCEPTANCE OF ALL THREE COMPONENTS MENTIONED IN PARAGRAPH 2 ABOVE. ON JANUARY 18, PRIMARILY TO MEET VERY FAVORABLE SWISS FINANCING, EXIMBANK REVISED ITS OFFER TO FINANCE 75 PERCENT OF U.S. COSTS AT 8 3/8 PERCENT, REDUCING PEFOD PARTICIPATION TO 10 PERCENT. THIS OFFER WAS CONDITIONAL, HOWEVER, ON KOREAN AGREEMENT TO PURCHASE ALL OF COMPONENTS (1) AND (2) IN THE U.S. AND 90 PERCENT OF COMPONENT (3).

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4. FINALLY, ON JANUARY 27, IN AN EFFORT TO COUNTER SWISS COMPETITION, EXIMBANK MADE ONE FURTHER CONCESSION ON ITS LAST PREVIOUS OFFER BY EXTENDING REPAYMENT TO 15 YEARS. THIS DECISION WAS MADE LATE IN DAY JANUARY 27 AND BANK MAINTAINS CABLING OF NOTICE TO COMPETITORS BY WEDNESDAY, FEB. 1, WAS NOT UNDUE DELAY CONSIDERING WEEKEND AND NECESSARY CLEARANCE PROCEDURES.

5. IN CONVERSATIONS BRITISH OFFICIALS, IN ADDITION TO BACKGROUND OUTLINED ABOVE, YOU MAY WISH TO MAKE FOLLOWING POINTS:

(A) DELAY OF THREE WORKING DAYS ON NOTIFICATION IS REGRETTED BUT PROBABLY IS NO WORSE THAN AVERAGE.

(B) EXIMBANK INTEREST RATE OFFER IS ABOVE PROPOSED CONSENSUS RATE ON POWER PROJECTS OF 8 1/4 PERCENT.

(C) WHILE 15 YEARS IS LONGER TERM THAN MOST RECENT LOANS IN THIS SECTOR, EXIMBANK DID PROVIDE 15 YEAR TERM ON KOREAN NUCLEAR PROJECT AS RECENTLY AS 1975.

(D) IF AGREEMENT REACHED REGARDING REMAINING NOMINAL
CHANGES IN CONSENSUS PROPOSED BY U.S., U.S. WOULD BE WILLING
TO ACCEPT SHORTER REPAYMENT TERM IN FUTURE ON PROJECTS
THIS TYPE. VANCE

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION, FINANCE, GOVERNMENT REACTIONS, NUCLEAR POWER PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 03 feb 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE029780
Document Source: CORE
Document Unique ID: 00
Drafter: ERENDALL/LW
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Expiration:
Film Number: D780052-1122
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197802113/aaaafpgs.tel
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Litigation Code IDs:
Litigation Codes:
Litigation History:
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Message ID: 3f609cce-c288-dd11-92da-001cc4696bcc
Office: ORIGIN TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 LONDON 1864
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 04 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3462346
Secure: OPEN
Status: <DBA CORRECTED> gwr 970827
Subject: EXIMBANK OFFER TO FINANCE KOREAN NUCLEAR POWER STATIONS
TAGS: ENRG, KS, UK, US, XMB
To: LONDON
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/3f609cce-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014